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E.O. 11652: GDS
TAGS: AMGT, PFOR, OECD
SUBJECT: PARM - USOECD ANNUAL POLICY AND RESOURCE
ASSESSMENT - PART I

REF: CERP 0001

A. US INTERESTS

THE OECD IS A MEANS RATHER THAN AN OBJECT OF US
FOREIGN POLICY. OUR PRIMARY INTEREST IS TO MAKE THIS
INTERNATIONAL ORGANIZATION AS EFFECTIVE AN INSTRUMENT
AS POSSIBLE FOR ADVANCING US FOREIGN ECONOMIC POLICY.
WE SEEK TO USE THIS ORGANIZATION OF THE INDUSTRIALIZED
DEMOCRACIES TO CREATE COMMON PERCEPTION OF FACTS, TRENDS
AND OBJECTIVES, AND TO DEVELOP COMMON COURSES OF ACTION
WHICH ARE INCREASINGLY CRUCIAL TO THE SUCCESS OF US
POLICY IN THIS INTERDEPENDENT MULTIPOLAR WORLD.

THE MAIN STRENGTH OF THE OECD LIES IN ITS
GROUPING THE US, EC, AND JAPAN IN A COOPERATIVE FRAME-
WORK -- AWAY FROM THE POLITICIZED SETTING OF THE UN
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AND SIMILAR BODIES -- COVERING THE WHOLE RANGE OF
ECONOMIC ISSUES. THE FACT THAT THE ORGANIZATION ALSO
INCLUDES PRACTICALLY ALL THE OTHER FREE WORLD INDUS-
TRIALIZED COUNTRIES MAKES IT A USEFUL PLACE TO PREPARE
THE ECONOMIC ISSUES FOR THE SUMMITS AND TO BROADEN AND
ACT ON THE ECONOMIC POLICY CONSENSUS REACHED THERE.
ITS MEMBERSHIP AND RANGE OF COMPETENCE MAKES IT THE

NATURAL CAUCUSSING FORUM FOR THE INDUSTRIALIZED DEMOCRACIES ON ISSUES AFFECTING NORTH/SOUTH AND EAST/WEST ECONOMIC RELATIONS.

WHILE ECONOMIC POLICY CLEARLY REMAINS THE FOCUS OF THE OECD'S WORK, THE SUCCESS OF THE MULTILATERAL COOPERATION AND COORDINATION WHICH TAKES PLACE HERE IS INCREASINGLY RELEVANT TO THE ACHIEVEMENT OF US INTERNATIONAL POLITICAL GOALS -- SUCH AS THE VIABILITY OF THE EC'S WEAK SISTERS ITALY, FRANCE, AND THE UK; THE STABILITY OF THE PERIPHERAL EUROPEAN GOVERNMENTS UNDERGOING POLITICAL TRANSITIONS, LIKE SPAIN AND PORTUGAL; OR THE APPROPRIATE POLICY RESPONSE TO THE CHANGES IN THE ECONOMIC RELATIONSHIPS WITH EASTERN EUROPE OR THE DEMANDS AND NEEDS OF THE DEVELOPING COUNTRIES.

THE FOLLOWING SECTIONS OF THIS TELEGRAM GIVE THE MISSION'S ASSESSMENT OF THE ISSUES THE US FACES IN THE MAIN AREAS OF INTERNATIONAL ECONOMIC COOPERATION AND OUR RECOMMENDED COURSES FOR APPROPRIATE ACTION IN THE OECD. OF PARTICULAR IMPORTANCE FOR THE IMMEDIATE FUTURE ARE THE ISSUES AND RECOMMENDATIONS RELATING TO THE JUNE 23-24 OECD MINISTERIAL MEETING TO BE ATTENDED BY SECRETARIES VANCE AND BLUMENTHAL, CONTAINED IN THE FINAL SECTION OF THIS MESSAGE.

B. OVERVIEW

THE NEXT YEAR OR TWO WILL SEE THE US AND OTHERS
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IN OECD GRAPPLING WITH UNDERLYING ECONOMIC TRENDS WHICH WE -- INDIVIDUALLY AND COLLECTIVELY -- NEITHER COMPLETELY UNDERSTAND ANALYTICALLY NOR CAN FULLY CONTROL, BUT WHICH WE MUST AND WILL SEEK TO INFLUENCE TO OUR MUTUAL BENEFIT. AT STAKE WILL BE NOT ONLY THE ECONOMIC CONDITION WITHIN AND AMONG THE DEVELOPED COUNTRIES. THE POLITICAL ENVIRONMENT WILL ALSO BE SIGNIFICANTLY AFFECTED BY THE EXTENT OF OUR SUCCESS.

THERE IS PRESENTLY NO CLEAR JUDGMENT ON HOW THE INDUSTRIAL DEMOCRACIES WILL BREAK OUT OF OUR PRESENT DILEMMA. THE PRESENT PACE OF ECONOMIC RECOVERY IN MOST OECD COUNTRIES IS INSUFFICIENT TO ABSORB UNEMPLOYMENT, WHICH IS STILL AT UNACCEPTABLY HIGH LEVELS. BUT OUR INDIVIDUAL AND COLLECTIVE POLICY OPTIONS FOR IMPROVING GROWTH ARE CONSTRAINED. THE OECD AREA AS A WHOLE RETAINS A HIGH INFLATION RATE AND A LARGE CURRENT ACCOUNT DEFICIT, THE EFFECTS OF WHICH ARE EXACERBATED BECAUSE THEY ARE SO UNEVENLY DISTRIBUTED. FOR MANY

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OECD COUNTRIES ECONOMIC SALVATION MUST COME FROM
WITHOUT, THROUGH EXPORT-LED GROWTH. BUT IT IS NOT
CLEAR WHERE THIS WILL COME FROM. THE INFLATIONARY
RISK -- REAL AND PERCEIVED -- WILL CONTINUE TO INHIBIT
THE DEGREE TO WHICH THE STRONGER COUNTRIES ARE ABLE OR
WILLING TO EXPAND. THIS LIMITATION APPLIES ALSO TO
THE US, WHICH HAS SIGNIFICANTLY OUTDONE GERMANY AND
JAPAN IN THIS RESPECT. THE WEAKER COUNTRIES CANNOT
AFFORD TO SEE THEIR POSITIONS DETERIORATE FURTHER.
EXPORTS TO NON-OIL LDCS ARE DOWN DRAMATICALLY, AND ARE
UNLIKELY, ALONG WITH EXPORTS TO THE EAST, TO EXPAND
SUBSTANTIALLY GIVEN THE FINANCIAL CONSTRAINTS THESE
COUNTRIES FACE. A NUMBER OF THE OIL PRODUCERS ARE
RAPIDLY EXPANDING IMPORTS, BUT THIS CANNOT BE ENOUGH
TO TAKE UP THE SLACK, AND OPEC AS A WHOLE WILL CONTINUE
TO RUN MASSIVE CURRENT ACCOUNT SURPLUSES FOR AT LEAST
THE NEXT SEVERAL YEARS WHICH WILL WEIGH HEAVILY ON THE
REST OF THE WORLD'S EFFORTS TO BREAK OUT OF ITS
UNEMPLOYMENT/INFLATION CONDITION.

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WE ARE NOT OPTIMISTIC THAT THIS POSITION WILL IMPROVE RAPIDLY OR DRAMATICALLY. RATHER THE ELEMENTS OF THE DILEMMA ARE MORE LIKELY TO PERSIST. FURTHERMORE, THE SITUATION HOLDS DANGERS. ESPECIALLY AMONG THE ECONOMICALLY WEAKER COUNTRIES, A POPULAR DISSATISFACTION OR DISILLUSIONMENT WITH GOVERNMENTAL INABILITY TO INCREASE MATERIAL WELLBEING COULD WELL LEAD TO FURTHER POLITICAL PRESSURES AND/OR SHIFTS WHICH COULD COMPOUND THE NATIONAL PROBLEMS. ECONOMIC DISSATISFACTION HAS CONTRIBUTED IMPORTANTLY TO THE POLITICAL PRESSURES ON GOVERNMENTS IN ITALY, FRANCE, THE UK, AND BELGIUM; AND THE POLITICAL PRESSURES IN TURN CONSTRAIN GOVERNMENTS' ABILITY TO TAKE APPROPRIATE ECONOMIC ACTION.

ANOTHER MAJOR DANGER IS THAT THE TEMPTATION TO SEEK NATIONAL RELIEF AT THE EXPENSE OF OTHERS WILL CERTAINLY GROW, RAISING THE SPECTRE OF A PROTECTIONIST CHAIN REACTION IN WHICH THE OPEN TRADING SYSTEM WE HAVE BEEN NURTURING SINCE WORLD WAR II COULD BE SERIOUSLY JEOPARDIZED. BESIDES THE ECONOMIC LOSSES, SUCH A DEVELOPMENT WOULD NECESSARILY IMPOSE HEAVY STRAINS ON THE POLITICAL RELATIONSHIPS WE HAVE WITH WESTERN EUROPE, JAPAN, AND CANADA.

FINALLY, THERE IS A POTENTIAL FOR GENERAL FINANCIAL CRISIS INHERENT IN THE VERY RAPID GROWTH OF PRIVATE INTERNATIONAL INDEBTEDNESS BY WHICH THE WEAKER OECD COUNTRIES, THE LDCS, AND THE EAST HAVE COVERED THEIR RECENT DEFICITS.

WHILE OUR MOST ESSENTIAL TASK IN THE PERIOD AHEAD WILL BE TO SEEK TO WORK MORE EFFECTIVELY WITH OTHER INDUSTRIALIZED DEMOCRACIES TO MANAGE TOGETHER THE PROBLEMS WE ALL FACE, WE WILL ALSO -- FOR BOTH ECONOMIC AND POLITICAL REASONS -- NEED TO WORK CLOSELY WITH THEM TO DEVELOP CONVERGENT APPROACHES TO

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OUR ECONOMIC RELATIONS WITH OTHER PARTS OF THE WORLD. THE CIEC WILL BE CONCLUDING IN A FEW MONTHS, BUT THE NORTH/SOUTH DIALOGUE WILL BE CONTINUING IN MANY FORUMS FOR YEARS TO COME.

WE ALSO EXPECT THAT THE PATTERN OF ECONOMIC INTERCHANGE BETWEEN THE COMMUNIST AND THE INDUSTRIAL MARKET ECONOMY COUNTRIES, WHICH HAS QUICKLY GROWN TO SIGNIFICANT DIMENSIONS, WILL CONTINUE TO EVOLVE, PER-

HAPS IN SOMEWHAT DIFFERENT WAYS THAN IN THE RECENT PAST, GIVEN THE LARGE EASTERN DEBT. THIS EVOLUTION MAY HAVE ITS IMPLICATIONS FOR POLITICAL DEVELOPMENTS IN EASTERN EUROPE. THIS PROCESS WILL INEVITABLY ENTAIL PROBLEMS, CONSTRAINTS, FRICTIONS, AND POLICY CHOICES WHICH WILL MAKE INCREASINGLY VALUABLE THE WORK OF ATTEMPTING TO DEVELOP A COMMON UNDERSTANDING AND APPROACH IN OECD.

AS TRADE INCREASES WITH COMMUNIST COUNTRIES, SO ALSO WILL PRESSURES TO FURNISH THEM STRATEGICALLY SENSITIVE GOODS AND TECHNOLOGY. THIS FACTOR, INTENSIFIED BY THE EFFECTS OF HIGH UNEMPLOYMENT AND POLITICAL DETENTE, WILL INEVITABLY CREATE ADDITIONAL STRAINS ON THE COCOM SYSTEM.

OVERHANGING THE WHOLE WORLD ECONOMY WILL CONTINUE TO BE THE IMPLICATIONS OF THE ENORMOUS TRANSFER OF WEALTH TO OIL-PRODUCING COUNTRIES. THIS

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PROBLEM IS COMPOUNDED BY THE ECONOMIC UNCERTAINTIES AND POLITICAL VULNERABILITIES ARISING FROM THE FACT THAT A SMALL GROUP OF COUNTRIES IS ABLE TO ACT WITH ENOUGH COHESIVENESS TO DECIDE THE AMOUNTS AND TERMS ON

WHICH THE REST OF THE WORLD CAN HAVE THE ENERGY IT NEEDS. NO MATTER HOW RELATIONS WITH THE OIL PRODUCERS DEVELOP, THE INDUSTRIALIZED ENERGY CONSUMERS MUST THEMSELVES TAKE STEPS, THROUGH CONSERVATION, ACCELERATED DEVELOPMENT OF NEW AND EXISTING SOURCES, AND VIGOROUS R&D EFFORTS, TO REDUCE THEIR DEPENDENCE AND TO FACILITATE THE TRANSITION FROM A WORLD ECONOMY BASED ON OIL AND GAS TO ONE BASED ON ALTERNATIVE ENERGY SOURCES. MULTILATERAL AGREEMENT ON SUCH APPROACHES CAN CONTRIBUTE TO THE PROCESS NOT ONLY BY RECIPROCAL HELP IN PARTICULAR AREAS BUT ALSO BY MAKING SOMEWHAT EASIER THE DIFFICULT DECISIONS WHICH GOVERNMENTS IN INDIVIDUAL COUNTRIES WILL HAVE TO TAKE. UNLESS SUCH NATIONAL AND MULTILATERAL STEPS ARE TAKEN, WE ARE LIKELY TO BE FACED BY THE MID-80'S, NOT ONLY WITH THE PROBLEM OF INCREASED VULNERABILITY TO THE OIL

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PRODUCERS BUT ALSO WITH A PHYSICAL SHORTAGE OF OIL VIS-A-VIS PROJECTED DEMAND, AN OUTLOOK WITH MAJOR IMPLICATIONS FOR ATTAINING OUR ECONOMIC AND SOCIAL OBJECTIVES.

THE US WILL BE DEALING WITH PROBLEMS SUCH AS THOSE JUST DESCRIBED THROUGH A COMPLEX VARIETY OF CHANNELS, BILATERAL AND MULTILATERAL. YET IT SEEMS FROM HERE THAT THE ESSENTIALLY INTERLOCKING WORLDWIDE NATURE OF SUCH ISSUES WILL INEVITABLY SERVE TO UNDERSCORE THE NEED FOR A MULTILATERAL APPROACH AMONG LIKE-MINDED INDUSTRIALIZED DEMOCRACIES.

C. OBJECTIVES, ISSUES, AND COURSES OF ACTION

IN THIS SECTION OF OUR ASSESSMENT WE HAVE SOUGHT TO FOCUS ON PROPOSED INNOVATIONS TO THE COURSES OF ACTION BEING FOLLOWED IN OECD. IN THE INTEREST OF PROJECTING CLEARLY AND CONCISELY OUR NEW PROPOSALS, WE HAVE ELIMINATED FROM THIS DISCUSSION IMPORTANT ON-GOING PROGRAMS ON INVESTMENT QUESTIONS, SCIENCE AND TECHNOLOGY, AID COORDINATION, AGRICULTURE, AND EDUCATION AND LABOR, FOR WHICH WE ARE NOT NOW SUGGESTING CHANGES IN OUR APPROACH. NOR DO WE PRETEND TO COMPLETE COVERAGE OF ALL COURSES OF ACTION IN THE AREAS COVERED BELOW. THE STRESS THROUGHOUT IS ON THOSE INNOVATIONS WHICH SHOULD BETTER POSITION US TO COPE WITH THE BROAD ISSUES FACING OECD COUNTRIES IN THE NEXT FEW YEARS AS SET FORTH IN THE PRECEDING OVERVIEW SECTION.

1. COORDINATION OF ECONOMIC POLICIES AMONG INDUSTRIALIZED COUNTRIES.

OBJECTIVE (A): ACHIEVEMENT OF SUSTAINABLE, NON-
INFLATIONARY GROWTH THROUGH THE MORE EFFECTIVE
COORDINATION OF MACRO-ECONOMIC POLICIES AND
INTENSIFIED CONSULTATIONS ON MICRO-ECONOMIC QUESTIONS.
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ISSUES: THE OECD IS THE MAJOR INTERNATIONAL FORUM
WHERE THE INDUSTRIALIZED COUNTRIES JOIN TO FOCUS ON
THE ENTIRE RANGE OF INTERNATIONAL ECONOMIC ISSUES.
MACRO-ECONOMIC, BALANCE OF PAYMENTS ADJUSTMENT,
FINANCING AND TRADE QUESTIONS, AS WELL AS A NUMBER OF
MICRO-ECONOMIC ISSUES, ARE OBVIOUSLY INTERRELATED.
HOWEVER, THE COMPARTMENTALIZED TREATMENT OF THESE
AREAS IN THE OECD, ITSELF A REFLECTION OF THE
FUNCTIONAL DIVISIONS OF MEMBER GOVERNMENTS, HAS MADE IT
DIFFICULT TO COME TO GRIPS MULTILATERALLY WITH THE MAJOR
POLICY ISSUES DISCUSSED IN THE PREVIOUS SECTION WHICH
CUT ACROSS FUNCTIONAL FIELDS. THE MAIN ISSUE WE FACE
IS HOW TO DEVELOP A FRAMEWORK FOR POLICY COORDINATION
WHICH EXPLICITLY RECOGNIZES THESE INTERLINKAGES. SUCH
A FRAMEWORK WOULD BETTER ENABLE US TO ASSURE THAT THE
MAJOR COUNTRIES ARE PROCEEDING ON THE BASIS OF
CONSISTENT ASSUMPTIONS AND POLICIES.

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COURSES OF ACTION:

--THE OECD SHOULD FURTHER DEVELOP ITS STRATEGY FOR SUSTAINED EXPANSION TO FORM THE BASIS OF AN INTEGRATED POLICY COORDINATION TECHNIQUE. THIS STRATEGY WOULD BE EXPANDED TO LINK COOPERATION ON DOMESTIC ECONOMIC POLICIES WITH MONETARY AND FINANCIAL COOPERATION IN THE ADJUSTMENT PROCESS AND WITH A TIGHTER COMMITMENT AGAINST TRADE RESTRICTIONS. THE OVERALL STRATEGY WOULD BE DISAGGREGATED IN TERMS OF THE POLICY PATHS TO BE FOLLOWED BY INDIVIDUAL MAJOR COUNTRIES, SUPPLEMENTED BY A QUANTITATIVE EXPRESSION OF WHAT ADHERENCE TO THESE PATHS WOULD IMPLY FOR GROWTH AND INFLATION RATES IN EACH COUNTRY AND FOR THE OECD AREA AS A WHOLE. FORMAL, MUTUALLY CONDITIONAL LINKAGES AMONG THESE COMMITMENTS MIGHT NOT BE DESIRABLE AND WOULD PROBABLY NOT BE NEGOTIABLE IF THEY WERE. NOR WOULD IT BE NECESSARY TO ALTER THE MANDATES OF ANY OECD COMMITTEES TO IMPLEMENT THIS PROPOSAL (ALTHOUGH CONFIDENTIAL

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CHANGES IN WAYS THAT COMMITTEES ARE NOW OPERATING MAY WELL BE APPROPRIATE -- SEE OBJECTIVE (B) BELOW). NEVERTHELESS, CONCLUSIONS IN ONE COMMITTEE (E.G., EPC OR WP3) SHOULD BE EXPLICITLY ACCEPTED AS PARAMETERS IN DISCUSSIONS IN OTHERS (E.G., TRADE COMMITTEE). (FOR DETAILS OF THIS PROPOSAL, SEE OECD PARIS 2175.)

--THE OECD SHOULD EXAMINE THE GROWTH AND INFLATION IMPLICATIONS OF VARIOUS CURRENT ACCOUNT ADJUSTMENT SCENARIOS. TWO EXTREME VARIATIONS FOR ANALYTICAL PURPOSES COULD INCLUDE A SCENARIO UNDER WHICH WEAK COUNTRIES BEAR THE FULL BURDEN OF ADJUSTMENT EITHER THROUGH DEFLATION OR TRADE RESTRICTIONS AND ONE IN WHICH STRONG COUNTRIES SHOULD THE BURDEN PRIMARILY THROUGH FASTER GROWTH. SUGGESTIONS FOR SMOOTHING THE ADJUSTMENT PROCESS IN THE CONTEXT OF MACRO-ECONOMIC POLICY REQUIREMENTS SHOULD BE DISCUSSED AT JUNE 14-15 EPC AND CONCLUSIONS SHOULD BE SUBMITTED TO OECD MINISTERIAL.

--THE OECD SHOULD ANALYZE ON A CONTINGENCY BASIS THE IMPACT OF AND LIKELY POLICY REACTIONS TO ANOTHER MAJOR SHOCK (OIL PRICE INCREASE) TO THE OECD ECONOMIC SYSTEM.

THE FOCUS SHOULD BE ON THE EXTENT TO WHICH PROBABLE DIFFERENTIAL POLICY RESPONSES WOULD FURTHER WIDEN INTRA-OECD DIVERGENCIES.

--THE USG SHOULD GIVE PROMPT CONSIDERATION TO THE MCCracken GROUP'S REPORT, "POLICIES FOR SUSTAINABLE NON-INFLATIONARY GROWTH" (WHICH WILL BE COMPLETED IN THE NEXT FEW WEEKS), TO IDENTIFY THOSE OF ITS RECOMMENDATIONS WHOSE COORDINATED FOLLOW-UP IN OECD WOULD SERVE U.S. INTERESTS. TO HAVE MAXIMUM IMPACT, U.S. SHOULD ADVANCE PROPOSALS FOR A FOLLOW-ON TO THE MCCracken REPORT AT THE OECD MINISTERIAL.

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--THE USG SHOULD ACTIVELY SUPPORT THE SECRETARIAT'S EFFORT TO IMPROVE ITS PERIODIC FORECASTS WHICH ARE BASIC TO IMPROVEMENT OF THE COORDINATION PROCESS. SPECIFICALLY, WE SHOULD (A) INTENSIFY CONSULTATIONS AT THE TECHNICAL LEVEL BETWEEN U.S. AND SECRETARIAT EXPERTS; (B) CALL FOR REGULAR MEETINGS OF EXPERTS FROM CAPITALS WHO WOULD FOCUS ON FORECASTING TECHNIQUES RATHER THAN ON DIFFERENCES BETWEEN NATIONAL AND SECRETARIAT FORECASTS. THE AGENDA FOR SUCH MEETINGS WOULD INCLUDE POST MORTEMES ON THE MOST RECENT SECRETARIAT FORECASTS.

--THE USG SHOULD SUPPORT ANALYSIS IN EPC/WP2 AND IN MANPOWER AND SOCIAL AFFAIRS COMMITTEE OF STRUCTURAL CAUSES OF UNEMPLOYMENT AND OF THE EFFICACY OF SELECTIVE MANPOWER POLICIES FOR DEALING WITH THIS PROBLEM.

--THE USG SHOULD PRESS FOR MORE EFFECTIVE OECD ACTIVITIES ATTEMPTING TO PREDICT POTENTIAL SUPPLY BOTTLENECKS AND CONSIDERING WAYS TO AVOID OR OVERCOME THEM.

--WE SHOULD STIMULATE FURTHER WORK ON THE MAIN DETERMINANTS OF PRIVATE INVESTMENT IN BOTH THE INDUSTRY COMMITTEE AND EPC'S WORKING PARTY 2.

OBJECTIVE (B): OBTENTION OF AN OECD COMMITTEE STRUCTURE WHICH MAXIMIZES THE EFFECTIVENESS OF THE

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ORGANIZATION AS AN ECONOMIC POLICY COORDINATION FORUM.

ISSUES: THE CENTRAL ORGANIZATION ISSUE IS WHETHER IN VIEW OF THE HEIGHTENED RECOGNITION OF THE FUNDAMENTAL INFLUENCE OF DOMESTIC ECONOMIC POLICIES ON EXCHANGE RATE MOVEMENTS AND ON THE ADJUSTMENT PROCESS, THE FUNCTIONS AND STRUCTURE OF EPC AND ITS WP3 SHOULD BE REVIEWED AND PERHAPS ADJUSTED TO DEAL MORE ADEQUATELY WITH THE CURRENT ISSUES SET FORTH IN SECTION B. A CLOSELY RELATED OBJECTIVE WOULD BE TO SEEK TO REDUCE THE NUMBER OF MEETINGS WHICH REQUIRE HIGH-LEVEL REPRESENTATION FROM CAPITALS REDUCING DUPLICATION BETWEEN THE BODIES TO THE EXTENT POSSIBLE AND MAKING MEETINGS MORE SPECIFICALLY POLICY OR ACTION ORIENTED (THESE POINTS WERE RAISED BY SECRETARY BLUMENTHAL AND UNDER SECRETARY SOLOMON DURING THEIR RECENT MEETING WITH VAN LENNEP IN WASHINGTON).

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--WE ARE WORKING ON AN OPTION PAPER ON THIS ISSUE WHICH WE WILL SUBMIT BY SEPTTEL.

OBJECTIVE (C): FACILITATION OF THE ADJUSTMENT PROCESS

AND MAINTENANCE OF THE OPEN TRADING SYSTEM BY INSURING THE ADEQUACY OF OFFICIAL FINANCIAL RESOURCES USED IN THE CONTEXT OF APPROPRIATE CONDITIONALITY WITH RESPECT TO ADJUSTMENT POLICIES.

ISSUES: THE MAJOR ISSUE IS THE AMOUNT BY WHICH OFFICIAL FINANCIAL FACILITIES SHOULD BE AUGMENTED AND WHAT FORM THE AUGMENTATION MIGHT BEST TAKE. THE MAJOR POSSIBILITIES AT THIS TIME ARE THE OECD FINANCIAL SUPPORT FUND (FSF) AND THE VARIOUS ALTERNATIVES FOR ACTION THROUGH IMF. DECISIONS BY GOVERNMENTS WILL BE BASED INTER ALIA ON AN ASSESSMENT OF THE ADEQUACY OF THE PRESENT ADJUSTMENT PROCESS, THE NATURE AND URGENCY OF PROSPECTIVE FINANCIAL NEEDS AND THE RELATIVE SPEED AND DIFFICULTY OF IMPLEMENTING THE TWO APPROACHES. THE FSF WHICH AS A PRACTICAL MATTER ONLY LACKS U.S. RATIFICATION TO BE ESTABLISHED, IS BASED ON THE FACT THAT THE OPEC COUNTRIES, IN THE ABSENCE OF ALTERNATIVE OUTLETS, CANNOT AVOID PLACING THEIR SURPLUS REVENUES IN NATIONAL OR INTERNATIONAL FINANCIAL MARKETS IN THE OECD AREA AND THAT THERE IS ECONOMIC AND POLITICAL VALUE IN AN OFFICIAL FACILITY FOR THE INDUSTRIALIZED DEMOCRACIES WHICH IS NOT DIRECTLY DEPENDENT ON OPEC CONTRIBUTIONS. THE QUESTION IS WHETHER THE U.S. SHOULD PROCEED TO SUPPORT ITS ORIGINAL COMMITMENT WHEN IT PROPOSED THE FSF, WHETHER IT NOW FINDS AN IMF OPTION ON BALANCE MORE ATTRACTIVE, OR WHETHER BOTH THE FSF AND THE IMF APPROACHES SHOULD BE SUPPORTED.

COURSES OF ACTION:

--IN THE SHORT RUN THE USG SHOULD CONTINUE TO ASSESS
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THE ADVANTAGES OF RATIFICATION OF THE OECD FINANCIAL SUPPORT FUND AGREEMENT, EVEN AS OTHER MEANS OF OFFICIAL FINANCIAL FACILITIES (E.G., IN IMF) ARE BEING STUDIED OR NEGOTIATED.

--IN THE LONGER RUN, THE USG SHOULD ENCOURAGE THE OECD TO ASSIST IN THE ASSESSMENT OF THE NEED FOR FURTHER OFFICIAL FINANCING (PROBABLY IN WP-3) AS PART OF THE STUDY OF PROSPECTS AND PROBLEMS OF THE ADJUSTMENT PROCESS, IN CONJUNCTION WITH THE "ADJUSTMENT SCENARIOS" STUDY OUTLINED ABOVE, OR IN OTHER WAYS.

OBJECTIVE (D): ASSURANCE THAT NATIONAL AND INTERNATIONAL TAX POLICIES FACILITATE -- NOT IMPEDE -- EFFICIENT INTERNATIONAL ALLOCATION OF RESOURCES, AND DO NOT BECOME AREAS OF INTERNATIONAL FRICTION.

ISSUES: IN THE TAX AREA, WE NEED TO IDENTIFY THE AREAS
SUSCEPTIBLE TO INTERNATIONAL COOPERATION AND CONCENTRATE
ON THOSE ISSUES OF GREATEST RELEVANCE TO THE U.S.
A MAJOR AND GROWING SOURCE OF FRICTION IN INTERNATIONAL
TRADE ARE THE TAX POLICIES AND SUBSIDIES BOTH IN THE
FIELD OF DIRECT AND INDIRECT TAXES WHICH ARE FRAUGHT
WITH MISUNDERSTANDINGS WHEN DEALT WITH EXCLUSIVELY AS
COMMERCIAL POLICY MATTERS.

COURSE OF ACTION:

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IN ADDITION TO PURSUING WORK TOWARD ELIMINATING DOUBLE
TAXATION AND COMBATTING TAX EVASION, THE OECD COMMITTEE
ON FISCAL AFFAIRS SHOULD (IN COOPERATION WITH THE TRADE
COMMITTEE) BE SEIZED WITH THE TASK OF STUDYING THE
QUESTION OF TAXES AFFECTING FOREIGN TRADE, ESPECIALLY
DIRECT TAXES, WITH A VIEW TO A POSSIBLE NEGOTIATION.

2. TRADE POLICY

OBJECTIVES: MAINTENANCE AND IMPROVEMENT OF DISCIPLINE
OVER INDUSTRIALIZED COUNTRY TRADE POLICIES, BRINGING UNI-
LATERAL AND BILATERAL ACTIONS TO SOLVE TRADE PROBLEMS

UNDER MORE EFFECTIVE MULTILATERAL SURVEILLANCE; TO SUPPORT PROGRESS IN THE MTN; AND TAKE A FORWARD LOOK AT LONGER TERM TRADE PROBLEMS.

ISSUES: THE OECD TRADE PLEDGE, WHICH HAS SERVED FAIRLY WELL TO RESTRAIN PROTECTIONISM THE LAST THREE YEARS, EXPIRES IN JUNE, AND A DECISION IS NEEDED ON ITS RENEWAL OR REPLACEMENT. THE QUESTION HERE IS WHETHER HEIGHTENED
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PROTECTIONIST PRESSURES DISCUSSED IN SECTION B ABOVE AND INCREASING USE OF INFORMAL ARRANGEMENTS TO PRESERVE MARKETS MAKE THE EXISTING PLEDGE ADEQUATE TO THE CHALLENGE OF THE PRESENT SITUATION. AT THE SAME TIME IT CAN BE ASKED WHETHER INTENSIFIED COOPERATION IN THE OECD COULD NOT HELP MEET THE GOAL OF SUBSTANTIAL PROGRESS IN THE MTN. FINALLY, IS IT NOT TIME TO START CONSIDERATION OF KEY TRADE ISSUES THAT MAY FACE OECD COUNTRIES IN THE POST-CRISIS, POST-MTN PERIOD?

COURSES OF ACTION:

-- THE USG SHOULD ASSURE THAT OECD AT THE JUNE MINISTERIAL MEETING REAFFIRMS THE COMMITMENT TO AVOID TRADE DISTORTING POLICY ACTIONS--CURRENTLY EMBODIED IN THE TRADE PLEDGE--AND SEEK THROUGH INTENSIVE DISCUSSIONS AFTER THE SUMMIT AND PRIOR TO THE MINISTERIAL MEETING TO REMEDY THE WEAKNESSES OF THE PLEDGE WITH RESPECT TO RATIONALE AND SUBSTANTIVE SCOPE.

-- THE USG SHOULD SUPPORT EFFORTS WITHIN OECD TO BROADEN AND DEEPEN THE "GENTLEMEN'S AGREEMENT" ON EXPORT CREDIT POLICY.

-- THE USG SHOULD SUPPORT A MORE ACTIVE PROGRAM OF AD HOC MULTILATERAL CONSULTATION ABOUT DIFFICULT SECTORAL PROBLEMS BEFORE THESE BECOME SO SERIOUS AS TO LEAD OUR TRADING PARTNERS INTO BILATERAL DEALS WHICH ADVERSELY AFFECT THE US. WE SHOULD START WITH AN EXAMINATION OF THE PROBLEMS IN THE STEEL INDUSTRY.

-- THE USG SHOULD MAKE INCREASED AND MORE FLEXIBLE USE OF THE MECHANISMS PROVIDED BY OECD TO DEVELOP DC CONSENSUS ON MTN ISSUES HAVING TO DO WITH THE SOUTH, THE EAST, OR AMONG DC'S THEMSELVES (SUCH AS GOVERNMENT PURCHASING). FOR EXAMPLE, IN THE PREVIOUS SECTION WE RECOMMENDED THAT THE COMMITTEE ON FISCAL AFFAIRS TAKE UP CERTAIN TAX
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ISSUES AFFECTING TRADE.

-- THE USG SHOULD ENCOURAGE OECD TO INITIATE EXAMINATION OF KEY LONGER TERM TRADE POLICY ISSUES. EXAMPLES MIGHT BE POLICIES OF ADJUSTMENT TO CHANGES IN COMPARATIVE ADVANTAGE AND THE ROLE OF TRADE POLICY IN THE BOP ADJUSTMENT PROCESS UNDER A REGIME OF FLEXIBLE RATES.

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3. ENERGY POLICY

OBJECTIVE (A): REDUCED DEPENDENCE OF THE OECD COUNTRIES ON IMPORTED OIL.

ISSUES: THE BASIC ISSUE IS WHETHER THE AGREED ANALYSIS DEVELOPED DURING THE INITIAL PHASE OF THE IEA REDUCED DEPENDENCE EXERCISE CAN BE TRANSLATED INTO CONCRETE NATIONAL AND COOPERATIVE MEASURES WHICH WILL ALTER THE PESSIMISTIC OUTLOOK SET FORTH IN SECTION B ABOVE. SPECIFIC ISSUES THAT WILL HAVE TO BE DEALT WITH ALONG THE WAY INVOLVE (A) CONSTRAINTS TO THE SUPPLY OF COAL AND ASSURING ITS ADEQUATE INTERNATIONAL AVAILABILITY, (B) RECONCILING OUR OBJECTIVES IN THE NON-PROLIFERATION

FIELD WITH THE NEED TO ASSURE ADEQUATE SUPPLIES OF NUCLEAR FUEL, (C) FINDING A FORMULA FOR INVOLVING FRANCE AND AUSTRALIA IN THE EXERCISE AND (D) ASSURING A ROUGH EQUIVALENCE OF EFFORT IN SHARING THE ECONOMIC BURDEN, AS WELL AS PROVIDING THE NECESSARY COMMITMENTS WHICH WOULD GUARANTEE THAT ALL COUNTRIES WOULD CONTINUE TO HAVE REA-
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SONABLY EQUITABLE ACCESS TO ENERGY SUPPLIES RELATIVE TO THEIR REQUIREMENTS.

COURSES OF ACTION:

-- USG SHOULD PRESS AHEAD WITH IEA REDUCED DEPENDENCE EXERCISE, BUILDING ON THE U.S. ENERGY POLICY IN THE MAKING AND THE POLITICAL WILL EXPRESSED AT THE SUMMIT. WE SHOULD SEEK MAXIMUM POSSIBLE RESULTS IN TERMS OF NATIONAL COMMITMENTS TO ACTION WHICH SHOULD BE EXPRESSED AT THE COMING IEA MINISTERIAL MEETING. THE US ITSELF SHOULD BE PREPARED TO COME UP AT AN EARLY DATE WITH A STATEMENT OF THE INTERNATIONAL COMMITMENTS IT IS WILLING TO UNDERTAKE.

-- THE USG SHOULD BEGIN TOGETHER WITH ITS IEA PARTNERS TO SORT OUT ENERGY, ENVIRONMENTAL AND NON-PROLIFERATION FACTORS INVOLVED IN DEVELOPMENT OF NUCLEAR POWER. WE SHOULD CONSIDER WHETHER OR HOW BEST TO UTILIZE IEA FORUMS TO FURTHER US NUCLEAR OBJECTIVES THROUGH INTEGRATED DISCUSSION AND ANALYSIS OF ENERGY, ENVIRONMENTAL AND NON-PROLIFERATION ASPECTS. OUR PARTNERS MAY BE MORE WILLING TO AGREE TO FOREGO THE USE OF AND DEVELOPMENT OF PLUTONIUM TECHNOLOGY IN THE CONTEXT OF A COMPREHENSIVE AND CREDIBLE MULTILATERAL ENERGY POLICY WHICH THEY PERCEIVE AS CONTAINING GUARANTEES OF AVAILABILITY OF ALTERNATIVE ENERGY SOURCES IN THE TRANSITION PERIOD.

-- THE USG SHOULD ENCOURAGE INVOLVEMENT OF FRANCE AND AUSTRALIA IN THE REDUCED DEPENDENCE EXERCISE AND EXPLORE FORMULAE BY WHICH THIS MIGHT BE ACCOMPLISHED, I.E., THROUGH OECD ENDORSEMENT OF IEA COMMITMENTS, OR THROUGH THE EC IN THE CASE OF FRANCE. CONSIDERATION SHOULD BE GIVEN TO AN EFFORT AT HIGH-LEVEL TO GET AUSTRALIA TO JOIN IEA GIVEN ITS LARGE COAL AND URANIUM ORE RESERVES. AS A BEGINNING, AUSTRALIA MIGHT BE URGED TO JOIN THE CURRENT IEA EXAMINATION OF COAL ISSUES. BOTH AUSTRALIA
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AND FRANCE ARE IMPORTANT TO ASSURING ADEQUACY OF ENERGY SUPPLIES WHICH IN TURN WOULD IMPORTANTLY FACILITATE OUR NON-PROLIFERATION OBJECTIVES.

-- THE USG SHOULD BEGIN TO CONSIDER HOW THE US ENERGY POLICY CURRENTLY BEING DEVELOPED CAN BE CAST IN TERMS MOST FAVORABLE TO ACHIEVEMENT OF OUR INTERNATIONAL OBJECTIVES. BECAUSE OF THE NEED TO MAINTAIN A ROUGH EQUIVALENCE IN EFFORT, WE WILL HAVE TO CONSIDER HOW TO MAKE CREDIBLE TO OUR IEA PARTNERS A POLICY IN WHICH AMERICAN CONSUMERS ARE SHIELDED IF THE DOMESTIC PRICES OF OIL AND GAS ARE NOT PERMITTED TO RISE RAPIDLY TO THE LEVELS OF OTHER COUNTRIES.

OBJECTIVE (B): TO DEVELOP A MORE COHERENT AND VISIBLE PROGRAM OF INTERNATIONAL ENERGY R&D COOPERATION. (WHILE THIS OBJECTIVE IS RELATED TO THE PRECEDING ONE, IT HAS A LONGER TERM CAST IN TERMS OF PAY-OFF, ALTHOUGH ITS POLITICAL BENEFITS MAY BE MORE IMMEDIATE.)

ISSUES: THE MAJOR ISSUE HERE IF WE ARE TO SIGNIFICANTLY EXPAND IEA ENERGY R&D ACTIVITIES, AS VICE-PRESIDENT MONDALE DESCRIBED OUR INTENTION DURING HIS EUROPEAN TRIP, IS TO COME UP WITH WORTHWHILE MAJOR IDEAS AND FUNDING FOR SPECIFIC COOPERATIVE PROGRAMS. IN THE NUCLEAR AREA, THE INSTITUTIONAL SITUATION IS COMPLICATED BY THE EXISTENCE OF OECD NUCLEAR ENERGY AGENCY, WHICH INCLUDES FRENCH AND OTHER NON-IEA OECD MEMBERS AND HAS A BROAD

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MANDATE IN ALL NUCLEAR MATTERS, BUT LACKS THE BASIC FRAMEWORK OF COMMITMENTS OF THE IEA AND ITS ESSENTIAL POLICY FOCUS. OUR EFFORT TO ENSURE THAT IEA RETAINS POLICY CONTROL OVER NUCLEAR PROJECTS (WHILE SOME OF THEM MAY BE TURNED OVER TO NEA FOR DETAILED IMPLEMENTATION) HAS NOT BEEN ACCEPTED BY OTHER MAJOR IEA MEMBERS, AND PROBLEMS STEMMING FROM IEA/NEA RELATIONSHIP COULD BECOME A SIGNIFICANT BOTTLENECK TO THE EFFECTIVE PURSUIT OF OUR NUCLEAR POLICY OBJECTIVES THROUGH IEA/OECD IF NOT RECOGNIZED AND DEALT WITH IN ADVANCE. THIS ISSUE IS ANALYZED IN OECD PARIS 07808.

COURSES OF ACTION:

-- THE USG SHOULD AIM AT LAUNCHING THIS YEAR MAJOR NEW COOPERATIVE PROGRAMS IN ENERGY R&D WITH APPROPRIATE FAN-FARE, INCLUDING SIGNIFICANT HARDWARE PROJECTS, BALANCING THIS WITH REINFORCED EFFORTS TO COORDINATE AND SHARE COSTS AND BENEFITS OF NATIONAL R&D PROGRAMS.

-- THE USG, STARTING FROM THE OPTIONS LAID OUT IN OECD
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PARIS 07808 SHOULD DEVELOP A CLEAR AND AGREED APPROACH WITHIN IEA TO THE MODALITIES FOR PURSUIT OF NUCLEAR OBJECTIVES THROUGH IEA AND NEA SO AS TO ENSURE THAT IEA CAN EFFECTIVELY ADDRESS POLICY ISSUES IN THE CONTEXT OF THE REDUCED DEPENDENCE OBJECTIVE AND RETAIN CONTROL OVER FORM AND TIMING OF WORK RELATED TO FUEL CYCLE AND NUCLEAR DEVELOPMENT. IN THIS CONNECTION THE USG SHOULD CAREFULLY REVIEW PRESENT ORIENTATION, STAFF LEVELS AND CAPABILITIES OF BOTH IEA AND NEA TO ENSURE THAT THEY HAVE THE CAPACITY TO HANDLE EXPEDITIOUSLY THOSE PROGRAMS IN NUCLEAR AREA WHICH MAY BE LAUNCHED.

OBJECTIVE (C): TO SEEK TO INFLUENCE OIL SUPPLY AND PRICE DECISIONS THROUGH DIALOGUE WITH THE OIL PRODUCERS.

ISSUES: THERE IS GENERAL AGREEMENT ON THE DESIRABILITY OF AN ON-GOING MECHANISM PROVIDED IEA IS NOT IN DEMANDEUR POSITION. THE ASSUMPTION IS THAT IF THIS IS TO HAPPEN, IT WILL BE AGREED AT ELEVENTH HOUR AT CIEC. ASSUMING ON-GOING ENERGY MECHANISM IS IN FACT ESTABLISHED, HOW CAN IT USEFULLY FUNCTION WITHOUT DC PARTICIPANTS BEING MANEUVERED INTO APPEARING MERELY TO BE GIVING TACIT OR EXPLICIT CONSENT TO OPEC PRICE INCREASES?

COURSES OF ACTION:

-- IN ADDITION TO CONSIDERING ALTERNATIVE FORMS FOR CONTINUED CONSULTATIONS ON ENERGY, THE USG SHOULD BEGIN ITS OWN PLANNING EXERCISE IMMEDIATELY TO SET OUT IN DETAIL THE WORK WE WANT A CONTINUING DIALOGUE TO DO.

OBJECTIVE (D): TO DEVELOP MECHANISMS FOR ASSISTING LDC'S TO DEVELOP THEIR OWN ENERGY SOURCES.

ISSUES: BESIDES THE IEI AND POSSIBLY OTHER MECHANISMS BEING CONSIDERED IN CIEC CONTEXT, THE IEA IS PRESENTLY CONSIDERING WHETHER TO OPEN ITS R&D PROGRAM TO PROJECT-
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BY-PROJECT LDC PARTICIPATION IN SOME AREAS. THE MAIN QUESTION IS WHETHER THIS POSSIBILITY SHOULD BE OPEN ONLY TO THOSE ADVANCED LDC'S ABLE BOTH TO CONTRIBUTE AND BENEFIT IMMEDIATELY FROM PROGRAM OR WHETHER DEVELOPMENT ASSISTANCE ASPECTS SHOULD BE TAKEN MORE FULLY INTO ACCOUNT.

COURSE OF ACTION:

-- THE USG SHOULD TAKE THE POSITION THAT IEA SHOULD OPEN THE R&D PROGRAM IN SELECTED AREAS TO LDC'S ABLE TO CONTRIBUTE EITHER FINANCIALLY OR IN RESEARCH BUT RESIST ANY EFFORT TO INTRODUCE A DEVELOPMENT ASSISTANCE ASPECT. OTHERWISE THE IEA R&D PROGRAM WOULD BE DIVERTED FROM ITS ORIGINAL PURPOSE OF DEMONSTRATING VISIBLE COOPERATIVE ACTION AMONG IEA GOVERNMENTS UNITED BY COMMON OBLIGATIONS AND BENEFITS IN THE ENERGY FIELD.

4. NORTH-SOUTH RELATIONS

OBJECTIVE (A): DEVELOPMENT OF A DC CONSENSUS ON THE SUBSTANCE OF THE POST CIEC DIALOGUE.

ISSUE: WHATEVER THE PACKAGE RESULTING FROM CIEC, THERE WILL BE A NEED TO DEVELOP A DC-AGREED SUBSTANTIVE BASIS FOR LONG-TERM DC/LDC COOPERATION RESPONDING TO THE NIEO. KEY ISSUES THAT HAVE TO BE TACKLED IN AN INTEGRATED FASHION TO DO THIS ARE:

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-- ROLE OF THE "ENGINE" OF DC MACROECONOMIC MANAGEMENT
AND GROWTH
-- ROLE OF ENERGY, RAW MATERIALS, AND FOOD IN BOTH SHORT-
TERM AND LONG-TERM ECONOMIC GROWTH AND STABILITY
-- GROWTH IN FINANCIAL RESOURCE TRANSFERS, INCLUDING
INVESTMENT
-- ROLE TO BE PLAYED BY THE EAST AND BY OPEC
-- DIFFERENTIATION AMONG DEVELOPING COUNTRIES
-- TRADE LIBERALIZATION AND INDUSTRIAL ADJUSTMENT
-- TECHNOLOGY TRANSFER
-- PRIVATE DEBT PROBLEM OF ADVANCED LDC'S
-- LDC SELF-HELP, INCLUDING HUMAN RIGHTS

COURSE OF ACTION:
-- USG SHOULD PROPOSE THE OECD BEGIN WORK ON DEVELOPING
A CONCEPTUAL APPROACH TO DEVELOPMENT WHICH EMBRACES ALL
THESE ISSUES. THIS WORK SHOULD GET UNDERWAY AS SOON AS
POSSIBLE AND EVEN BEFORE THE COORDINATION MECHANISM
DESCRIBED UNDER OBJECTIVE (D) IS ESTABLISHED.

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OBJECTIVE (B): AN INCREASE IN THE EFFECTIVENESS OF IN-
DUSTRIALIZED COUNTRY AID FLOWS.

ISSUE: THE MAIN ISSUE IS HOW TO MAKE MAXIMUM EFFECTIVE
DEVELOPMENT USE OF WHATEVER LEVEL OF RESOURCE TRANSFER
THE DC'S ARE ABLE TO PROVIDE.

COURSE OF ACTION:

-- USG SHOULD ENCOURAGE THE DEVELOPMENT ASSISTANCE COMMITTEE (DAC) TO INTENSIFY EFFORTS TO COORDINATE ASSISTANCE POLICIES AND PROGRAMS AND FOCUS INCREASINGLY ON CONCRETE FUNCTIONAL AND REGIONAL PROBLEMS BY USING "CONSULTATIVE GROUP" AND "DONOR CLUB" TECHNIQUES. IN PARTICULAR THE DAC SHOULD

I) EXPAND EFFORTS TO REACH BROAD UNDERSTANDINGS AMONG THE MAIN DONOR COUNTRIES ON WHAT KINDS OF DEVELOPMENT ASSISTANCE ARE APPROPRIATE FOR WHICH COUNTRIES AND REGIONS, THE RELATIVE LEVELS OF NEED OF VARIOUS BENEFICIARIES, AND THE PROGRAM AND POLICY INTENTIONS OF INDIVIDUAL DONOR COUNTRIES.

II) DEVELOP APPROACHES TO SPECIFIC FUNCTIONAL DEVELOPMENT PROBLEMS (SUCH AS NUTRITION, RURAL HEALTH SYSTEMS, EDUCATION, WATER USE, AND PEST CONTROL) INVOLVING COORDINATED EFFORTS AND COMMITMENT BY OECD DONOR COUNTRIES, ORGANIZED WITHIN OR OUTSIDE THE ORGANIZATION AND FOLLOWING THE EXAMPLE OF THE WORLD BANK'S CONSULTATIVE GROUP ON INT'L AGR. RESEARCH AND THE WHO'S SMALLPOX ERADICATION CAMPAIGN.

III) BUILD ON THE MODEL OF ITS EFFECTIVE "CLUB DES AMIS DUE SAHEL" AND EXPAND THE USE OF MULTIDONOR INTERDISCIPLINARY MECHANISMS TO BRING THE RIGHT MIX OF RESOURCES TO BEAR ON DIFFICULT DEVELOPMENT PROBLEMS AT THE COUNTRY AND REGIONAL LEVEL.

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OBJECTIVE (C): DEVELOPMENT OF A DC CONSENSUS ON THE INSTITUTIONAL FORM OF THE POST CIEC DIALOGUE.

ISSUE: THE MAIN QUESTION WE FACE IS WHETHER TO ABANDON THE RESTRICTED-MEMBERSHIP, ALL-ISSUE APPROACH TO N/S COOPERATION WHEN CIEC ENDS. ON THE ONE HAND IT IS VALUABLE TO HAVE A PLACE TO DISCUSS ECONOMIC QUESTIONS WITH A SMALL NUMBER OF DEVELOPING COUNTRIES INFORMALLY AND OUTSIDE THE POLITICALLY-CHARGED ATMOSPHERE OF UNCTAD AND THE UN. ON THE OTHER HAND, IT IS CLEARLY UNDESIRABLE TO CREATE A MECHANISM IN WHICH THE DC'S ARE PERIODICALLY UNDER PRESSURE TO COME UP WITH NEW CONCESSIONS. ON THE WHOLE WE THINK THE US INTEREST IN INTEGRATING THE MAJOR LDC ACTORS INTO THE WORLD ECONOMIC SYSTEM ARGUES FOR CONTINUATION, WITH A SOMEWHAT DIFFERENT FOCUS, OF A RESTRICTED N/S FORUM. ONE POSSIBLE CONCEPT WOULD BE TO HAVE PERIODIC OFFICIAL LEVEL MEETINGS, OUTSIDE THE GLARE OF PUBLICITY, AMONG A LIMITED NUMBER OF

KEY DC'S, OPEC MEMBERS, AND NON-OIL LDC'S TO EXCHANGE
ASSESSMENTS ON THE SHORT AND MEDIUM TERM WORLD ECONOMIC
OUTLOOK, WITH EMPHASIS ON PROSPECTS FOR GROWTH, PRICE
STABILITY, AND BALANCE OF PAYMENTS ADJUSTMENT. THE BASIS
FOR EXCHANGING VIEWS COULD BE ECONOMIC FORECAST PAPERS
PREPARED BY INDIVIDUAL COUNTRIES, GROUPS OF COUNTRIES,
OR AN INDEPENDENT SECRETARIAT.

COURSE OF ACTION:

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-- USG SHOULD CONSIDER THE OPTIONS FOR ESTABLISHING
REGULAR CONSULTATIONS BETWEEN THE DC'S AND LDC'S
CENTERED ON THE CONCEPT OF SHARED RESPONSIBILITY FOR
MANAGEMENT OF THE WORLD ECONOMY, INCLUDING THE
FOLLOWING:

I) A SPIN-OFF OR FOLLOW-UP TO CIEC. THIS WOULD SOLVE
OTHERWISE THORNY PROBLEMS OF CHOOSING REPRESENTATIVES
FOR THE LDC'S AND DC'S, INCLUDING THE EC, BUT WOULD TIE
THE VENTURE TO A PARTICULAR POLITICAL FRAMEWORK AND
HISTORY. IT MIGHT ALSO BE UNACCEPTABLE TO THE LDC'S.

II) A COMPLETELY INDEPENDENT INITIATIVE, PERHAPS AS A
PROPOSAL OF AN ECONOMIC SUMMIT CONFERENCE.

III) A LIAISON COMMITTEE BETWEEN THE OECD AND SELECTED LDC'S. THIS IS CONNECTED WITH THE BASIC QUESTION OF HOW THE OECD RELATES TO LDC'S, SOME OF WHICH, MOST RECENTLY COLOMBIA, HAVE EXPRESSED INTEREST IN JOINING THE ORGANIZATION. SUCH A COMMITTEE COULD BE A USEFUL VEHICLE FOR
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UTILIZING THE ANALYTICAL CAPABILITIES OF THE SECRETARIAT TO FORGE A BETTER UNDERSTANDING OF WORLD ECONOMIC MANAGEMENT ISSUES BY THE LDC'S AND THEIR IMPLICATIONS FOR GLOBAL PROGRESS.

IV) SEEK NO MECHANISM IN THE NEAR FUTURE BUT HAVE THE CIEC CO-CHAIRMEN OR SOME OTHER CIEC BODY MEET IN A YEAR OR TWO TO CONSIDER THE DESIRABILITY OF CONSULTATIONS IN SOME FORM.

5. EAST-WEST ECONOMIC RELATIONS (NON-STRATEGIC)

OBJECTIVE (A): BEGINNING OF THE DEVELOPMENT OF A CONSENSUS, AT LEAST AMONG THE MAIN ECONOMIC ACTORS, ON THE PREFERRED SCENARIOS FOR THE FURTHER DEVELOPMENT OF E/W ECONOMIC RELATIONS CONSISTENT WITH WESTERN POLITICAL OBJECTIVES IN EASTERN EUROPE, AND ON THE EXTENT TO WHICH AN INCREASED EASTERN ROLE IN WORLD DEVELOPMENT EFFORTS WOULD BE DESIRABLE.

ISSUE: THE DISPERSED ANALYTIC PROCESS FOR E/W ECONOMIC RELATIONS WITHIN THE OECD NEEDS INTEGRATION. IT IS DESIRABLE, FOR INSTANCE, TO EXAMINE THE INTERRELATIONSHIPS BETWEEN THE EAST'S ABILITY TO IMPORT, BORROWING CAPACITY, AVAILABLE GOLD RESERVES, SUPPLY OF ENERGY FOR EXPORT, APPLICATION OF IMPORTED TECHNOLOGY TO EXPORT INDUSTRIES, INTERNAL INVESTMENT/CONSUMPTION BALANCES, PRICING POLICIES FOR EXPORTED GOODS AND SERVICES, NET RESOURCE TRANSFER TO (OR FROM) THE LDC'S, AND WESTERN TRADE POLICIES. THIS WOULD SERVE AS A BASIS FOR DEVELOPING A SET OF ALTERNATIVE SCENARIOS FOR THE EVOLUTION OF E/W ECONOMIC RELATIONS IN THE FUTURE UNDER VARIOUS ASSUMPTIONS, FOR EXAMPLE, ON THE AVAILABILITY OF TRADE FINANCE. ASSESSMENT OF SUCH SCENARIOS WOULD INVOLVE, AT LEAST IMPLICITLY, THE USE OF SOME AGREED CRITERIA BY THE PARTICIPANTS. THIS WILL BE A DIFFICULT PROCESS.
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SENSITIVITIES OF MEMBER COUNTRIES LIKE FINLAND MAKE IT NECESSARY TO ADOPT AN OPEN-MINDED, GRADUALIST, AND ANALYTICAL APPROACH. A GOOD STARTING POINT MIGHT BE AN ANALYSIS OF FUTURE BALANCE OF PAYMENTS PROSPECTS (AND STRUCTURES) OF THE EAST.

COURSE OF ACTION:

-- THE USG SHOULD PRESS (IN THE XCSS OR VIA EXPERTS MEETINGS TO ASSIST THE SECRETARY GENERAL) FOR A MECHANISM FOR EXAMINING THE RELATIONSHIPS BETWEEN THE MANY FUNCTIONAL AREAS AND DEVELOP AND ASSESS ALTERNATIVE SCENARIOS FOR THE FUTURE EVOLUTION OF E/W ECONOMIC RELATIONS.

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OBJECTIVE (B): AN INCREASE IN COORDINATION OF WESTERN ECONOMIC POLICY TOWARD THE EAST WHERE THIS IS DESIRABLE TO AVOID DESTRUCTIVE COMPETITION AMONG THE WESTERN COUNTRIES THEMSELVES (E.G., OFFICIAL LENDING) OR TO RESPOND TO THREATS TO IMPORTANT ECONOMIC INTERESTS (E.G., SHIPPING).

ISSUE: THE QUALITATIVE LEAP IN E/W ECONOMIC INTERACTION

OF RECENT YEARS, ALONG WITH THE MONOLITHIC AND POLITICALLY GUIDED NATURE OF THE EASTERN COUNTRIES ECONOMIC INSTITUTIONS, MAKES IT INCREASINGLY NECESSARY TO ENSURE THESE DEVELOPMENTS DO NOT WORK OUT TO THE DISADVANTAGE OF THE WEST. THE QUESTION IS HOW TO MOVE FROM THE ANALYTIC STAGE TO THE STAGE OF OECD POLICY COORDINATION IN THOSE AREAS WHERE THE US FINDS THIS DESIRABLE, TAKING INTO ACCOUNT THE SENSITIVITIES OF OTHER MEMBERS ON THIS QUESTION.

COURSE OF ACTION:

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-- THE USG SHOULD ASSURE THAT THE OECD PRESSES FORWARD ITS WORK ON TRADE POLICY, EXPORT FINANCE, AGRICULTURE, TECHNOLOGY, SHIPPING, DEVELOPMENT ASSISTANCE, CAPITAL MARKETS, AND ENERGY (FINDING A PLACE, SUCH AS AN EXPERTS GROUP, WHERE THE SUBJECT OF EASTERN DEBT AS A WHOLE CAN BE DISCUSSED), IDENTIFYING THE AREAS WHERE POLICY COORDINATION IS DESIRABLE, AND SEEK TO PUSH WORK IN THIS DIRECTION.

6. EAST/WEST ECONOMIC RELATIONS (STRATEGIC)

B. U.S. OBJECTIVES AND COURSES OF ACTION

OBJECTIVE: MAINTENANCE OF AN EFFECTIVE INTERNATIONAL LIMITATION ON THE FLOW OF STRATEGICALLY SENSITIVE GOODS AND TECHNOLOGY TO THE COMMUNIST COUNTRIES.

ISSUE: THE USG MUST CONSIDER HOW BEST TO MAINTAIN COCOM AS A VIABLE AND EFFECTIVE BODY IN THE FACE OF THE STRAINS IT IS NOW ENCOUNTERING. THE TEMPTATIONS ARE INCREASING AMONG OUR COCOM PARTNERS TO PROVIDE STRATEGIC MATERIALS TO THE COMMUNIST COUNTRIES, GIVEN THE POLITICAL CLIMATE OF DETENTE AND THE STRINGENCIES OF HIGH UNEMPLOYMENT. AT THE SAME TIME, OUR COCOM COLLEAGUES DIFFER WITH US OVER DESIRABLE LEVELS OF EMBARGO, AND SEE THE U.S. PERFORMANCE AS HAVING BEEN HIGHLY UNSATISFACTORY DURING THE 1974 EMBARGO LIST REVIEW AND IN PROCESSING THEIR EXCEPTION REQUESTS. THE USG MUST ALSO CONSIDER HOW COCOM SHOULD FACE THE INTENSIFIED EFFORT BY COMMUNIST COUNTRIES TO OBTAIN WESTERN EMBARGOED GOODS AND TECHNOLOGY THROUGH WHAT IS SUSPECTED TO BE A SIGNIFICANT INCREASE IN DIVERSIONS, POSSIBLY WITH THE OCCASIONAL ACQUIESCENCE OF SOME MEMBER GOVERNMENTS.

COURSES OF ACTION:

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-- THE USG SHOULD APPROACH THE 1978 LIST REVIEW WITH FULLY JUSTIFIED, REASONABLY FLEXIBLE POSITIONS, TIMELY PROPOSALS AND COUNTER-PROPOSALS, AND AN ABILITY TO ADJUST THESE POSITIONS AS NEED BE DURING THE LIST REVIEW WITHIN THE REQUIRED STRATEGIC CONSTRAINTS. THIS WILL REQUIRE EFFECTIVE AND CONTINUAL COLLABORATION AND A SENSE OF URGENCY AMONG AGENCIES CONCERNED.

-- THE USG SHOULD SEEK BETTER COMPLIANCE WITH THE EMBARGO BY ALL COCOM MEMBERS BY INTENSIFYING U.S. INTELLIGENCE EFFORTS, ENCOURAGING THAT OF OTHER COCOM MEMBERS, AND WORKING FOR INCREASED EXCHANGE OF INFORMATION.

-- TO DISCOURAGE DIVERSIONS OF EMBARGOED GOODS AND TECHNOLOGY, THE U.S. SHOULD REQUEST IN THE NEAR FUTURE A MEETING OF COCOM'S EXPORT CONTROL SUB-COMMITTEE TO PRESENT A REPORT ON THE FINDINGS OF ITS RECENT COMPLIANCE STUDY.

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D. THE COMING MONTHS

THE PERIOD IMMEDIATELY AHEAD CONTAINS A SERIES OF CRITICAL POINTS FOR U.S. INTERNATIONAL ECONOMIC POLICY: THE SUMMIT ON MAY 7-8, THE CIEC MINISTERIAL ON MAY 30 - JUNE 1, AND THE OECD MINISTERIAL ON JUNE 23-24.

THE SUMMIT WILL OF COURSE BE A FOCUS OF WORLD ATTENTION. THE DEMONSTRATION THAT THE LEADERS OF THE PRINCIPAL INDUSTRIALIZED DEMOCRACIES ARE TOGETHER ADDRESSING THE HARD INTERNATIONAL ECONOMIC PROBLEMS SHOULD ADD AN INDISPENSIBLE ELEMENT OF PUBLIC CONFIDENCE IN THE PRESENT CONJUNCTURE.

WE RECOMMEND THAT AS AN IMPORTANT STEP IN INTERNATIONAL CONFIDENCE BUILDING THE OECD MINISTERIAL SEEK TO GENERALIZE THE CONSENSUS REACHED AT THE SUMMIT AMONG ALL 24 OECD MEMBER COUNTRIES AND TO GIVE MORE SPECIFIC AND CONCRETE SHAPE TO THE SUMMIT UNDERSTANDINGS. THIS CONFIDENTIAL

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WOULD BE CONSISTENT WITH WHAT SECRETARY BLUMENTHAL TOLD OECD SECGEN VAN LENNEP IN THEIR MARCH 22 CONVERSATION, TO THE EFFECT THAT THE OECD SHOULD HAVE AN IMPORTANT ROLE IN CARRYING OUT LINES OF ACTION AGREED AT THE SUMMIT ESPECIALLY ON THE COORDINATION OF POLICIES. THIS COULD MEAN HAVING THE OECD MINISTERS ARTICULATE (A) THEIR DESIRE TO SEE A MORE INTEGRATED PROCESS OF POLICY COORDINATION TAKE PLACE WITHIN THE OECD, (B) THEIR COMMITMENT TO AN OPEN WORLD TRADING SYSTEM (THROUGH RENEWAL OR REPLACEMENT OF THE TRADE PLEDGE), AND (C) THEIR CONCEPT OF FUTURE NORTH/SOUTH RELATIONS TAKING INTO ACCOUNT THE OUTCOME OF THE CIEC. THE MINISTERS WILL BE SETTING DIRECTIONS FOR THE ORGANIZATION FOR THE YEAR TO COME, AND IN DOING SO, COULD LEND A POWERFUL IMPETUS TO THE COURSES OF ACTION WE HAVE RECOMMENDED IN EARLIER SECTIONS OF THIS MESSAGE.

IF PAST PRACTICE HOLDS, THE FIRST DAY OF THE MINISTERIAL WOULD BE DEVOTED TO THE BROAD CONCERNS OF FOREIGN (AS WELL AS FINANCE AND ECONOMICS) MINISTERS WHILE THE SECOND DAY WOULD BE DEVOTED TO THE MORE SPECIFICALLY ECONOMIC ISSUES WITHIN THE PURVIEW OF FINANCE AND ECONOMIC MINISTERS. THE AGREEMENT OF THE MEETING WILL BE EMBODIED IN A COMMUNIQUE, KEY ELEMENTS OF WHICH MIGHT INCLUDE THE FOLLOWING ITEMS:

--AGREEMENT NOT ONLY THAT THE POLICY COORDINATION

PROCESS SHOULD BE IMPROVED, BUT ALSO ON SOME SPECIFIC
MODALITIES FOR IMPROVEMENT. THE MINISTERS MIGHT
INSTRUCT THE ORGANIZATION TO DEVELOP A MORE INTEGRATED
APPROACH, STARTING FROM POLICY PATHS TO BE TAKEN BY
INDIVIDUAL MEMBER COUNTRIES, AND INCLUDING REALISTIC
AND INTERNALLY CONSISTENT DESCRIPTIONS OF HOW RECIPROCAL
ADJUSTMENTS (INCLUDING DOMESTIC POLICY MEASURES,
EXCHANGE RATE MOVEMENTS, AND EXTERNAL FINANCING) WOULD
BE HANDLED.

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--A POLITICALLY EFFECTIVE REAFFIRMATION OF THE
IMPORTANCE OF AN OPEN TRADING SYSTEM AND OF THE MUTUAL
AGREEMENT TO REFRAIN FROM NATIONAL MEASURES WHICH

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WOULD RESTRICT IMPORTS OR ARTIFICIALLY STIMULATE EXPORTS.

--A STATEMENT, DRAWING ON THE CIEC OUTCOME, WHICH WOULD
(A) EMPHASIZE THE POLITICAL WILL OF THE INDUSTRIALIZED

DEMOCRACIES TO WORK FOR AN INTERNATIONAL ECONOMIC SYSTEM IN WHICH THE OPPORTUNITIES OF DEVELOPING COUNTRIES WILL BE SIGNIFICANTLY INCREASED TO IMPROVE THEIR OWN WELL-BEING; (B) DETAIL THE STEPS TAKEN BY THE DEVELOPED COUNTRIES FOR THE BENEFIT OF LDC'S DURING THE PRECEDING YEAR AND A HALF; (C) REAFFIRM THE BENEFITS THAT A WORLD MARKET SYSTEM PROVIDES FOR ALL COUNTRIES; AND (D) CALL ON THE OECD TO DEVELOP A COMMON VIEW ON THE NATURE AND ELEMENTS OF THE POST CIEC DIALOGUE.

--A GENERAL STATEMENT ON THE IMPORTANCE OF IMPROVING THE PERFORMANCE OF OECD COUNTRIES IN SEEKING A BETTER WORLD SUPPLY/DEMAND BALANCE FOR ENERGY. SUCH A STATEMENT SHOULD NOT SEEK TO RIVAL IN SPECIFICITY THE COMMITMENTS WHICH AN IEA MINISTERIAL (WHOSE TIMING IS NOT YET CLEAR) WOULD ANNOUNCE, BUT SHOULD SERVE AS AN CONFIDENTIAL

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OECD UMBRELLA UNDER WHICH NON-IEA MEMBERS COULD, IF THEY WISHED, ALIGN THEIR NATIONAL ACTIONS WITH THOSE OF IEA MEMBERS.

--(POSSIBLE) A GENERAL STATEMENT RECONFIRMING THE INTEREST OF MINISTERS IN THE ONGOING WORK ON EAST-WEST ECONOMIC RELATIONS.

--A MINISTERIAL COMMUNIQUE WHICH CONTAINS, INTER ALIA, THE FOREGOING ELEMENTS WOULD PROVIDE A VALUABLE THRUST FOR THE OECD'S WORK PROGRAM OVER THE NEXT YEAR IN SUPPORT OF U.S. MULTILATERAL ECONOMIC OBJECTIVES.
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